

27 January, 2012

**Moderator:**

Ladies and gentlemen good morning and welcome to call of Greaves Cotton Limited to discuss their Q3 FY12 results hosted by Emkay Global Financial Services. We have with us today Mr. Sunil Pahilajani – Managing Director and CEO and Mr. A K Sonthalia Executive Vice President and CFO. All participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference please signal an operator by pressing '\*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I would like to hand the conference over to Mr. Anish Damania – Head Institutional Equities, Emkay Global. Thank you and over to you sir.

**Anish Damania:**

Good morning everybody. Thank you for joining us today. We would like to welcome the management of Greaves Cotton Limited and thank them for giving us an opportunity to host this call. Mr. Sunil Pahilajani has an urgent meeting which is coming up at about 11:30 so he will be actually leaving post that but in the meanwhile we have Mr. A K Sonthalia who is the Executive Vice President and CFO to take on the questions from thereon. So with this I would like to handover this call to Mr. Pahilajani over to you sir.

**Sunil Pahilajani:**

Hello, ladies and gentlemen, this is Sunil Pahilajani. As you may be aware that I joined Greaves Cotton three months ago. I wanted to highlight a few key events about us. A new engine plant at Shendra was inaugurated on 19<sup>th</sup> October, adding our capacity and at Chakan, Pune we started a new genset assembly facility around mid-November. Next is the Ranipet near Chennai, where we are progressing on expansion. Again, this is an automotive engine facility.

Now talking about certain businesses, the high interest rates had adverse impact on our construction business and auxiliary power business. The Industrial engines and International operations though started with small base are growing rapidly and growing well. In terms of our Agri business, our farm equipment business, we saw growth in pumps as well as tiller markets and we hope to continue that. Automotive business saw reasonable growth of about 11 to 12% during this quarter.

And, now talking about some of the key initiatives which we are taking as we mentioned in our some of the key events on Shendra, Ranipet, etc., we continue to invest in building engine capacity and growing in Automotive as well as the industrial engine applications. The most important is that we are strengthening our R&D product development and technology as we are a technology driven company for future programs. Special emphasis is being now laid on market development for market growth areas for each of the businesses separately so that we secure businesses for future programs and we are in the middle of now rebuilding the distribution network for Auxiliary Power which is a kind of strengthening process for this. So this is briefly about us and I will now hand over to my colleague Mr. Ashok Sonthalia to talk about the financial results.

**A. K. Sonthalia:**

Thank you, Sunil, and good morning ladies and gentlemen once again. Thank you very much for joining the call. I will be taking you through the financial results for Greaves Cotton Limited for the third quarter which is October through December period. The results were announced yesterday and uploaded on our website as well as stock exchange website, so I hope you have access to that. Briefly, the net sales for the company were at Rs. 464 crores for this quarter and just to let you know that this was highest so far in any quarter in the last few years. The previous best was rupees 453 crores in March 2011 quarter if you have been tracking us. On a year on year basis the company grew by 11% as far as sales is concerned. The profit after tax stood at 34 crores to rupees 44 crores in the same quarter a year ago. Of course this indicates that the EBITDA margin has come down by 4.4% from 17% to 12.6%. And this is not a small contraction, but let me tell you that there has been some one-off item during this quarter which were responsible for 2% drop. So out of 4.4%, 2% is those one-off items which generally doesn't get repeated so often. Out of remaining the 2.4% drop, 2% was due to material cost, product mix in some of the segments, selling prices were under pressure particularly in Auxiliary Power and weakening rupee for traded portfolio of our Agri products. The other 0.4% was due to higher operating expenses. Shendra is in the process of ramping up and all operating expenses around that unit have started kicking in.

One thing which you would have noticed from our results is that there is some intersegment sales in this quarter and that pertains to some of our engines and castings that have started going to our Construction division. So that process on which we have been working for last few quarters and we have been talking about that, that we want to adapt our engines for construction equipment requirement and some beginning has happened. So that's in brief about financial performance for the quarter. So at this point of time I think let me open it for your questions which you would have for Mr. Pahilajani. Wherever required, I will pitch in. So thank you very much. Anish, now you can open the session for questions.

Thank you so much. We will now begin the Q&A session at this time.

**Moderator:**

We have our first question from the line of Bharat Gyani from Sharekhan. Please go ahead.

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**Question and Answer Session**

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**Bharat Gyani:**

Good morning sir. Just have a question about the our engine business like I wanted to understand the contribution of various segments I mean the engine volumes which segment contributed how much to the revenues and your outlook for the same?

**A. K. Sonthalia:**

Okay, I will give you some flavor of the contribution in terms of top-line by each segment but I will not be able to give you individual segment's profit margin. We report profit margin at engine level and construction and we will restrict with that. But in terms of contribution to the top-line, now industrial engine which had made a very small beginning now is contributing about 6%-7 % of the company turnover. Auto division continue to do more than 50% and the rest of the three which is Construction, Agri and Auxiliary power are equally distributed. The Construction is a bit down this time.

**Bharat Gyani:**

Okay and sir the outlook going forward for the various segments?

**A. K. Sonthalia:**

Going forward at overall company level, we believe that the sales growth which we have been seeing should have for the full year about 10 to 11% growth compared to last year. The profit margins are under pressure which is evident from our financial results for this quarter. So that is the challenge and that would continue to be there very much. But the good news is that interest rates are peaking out and gradually conducive environment should build up. But as far as 2012-13 is concerned, so far all estimates and projections are a bit weak whether it is GDP or whether it is any other external environment news. So we have to be a little cognizant of that. If the GDP is less than 7% then major growth cannot be expected by us also. But as Sunil was explaining that we are working very seriously on our market development activities which should allow us to do little better than our peers and in the industry even if there is a slow momentum.

**Moderator:**

Thank you. Our next question is from the line of Pranav Gokhale from Religare Asset Management. Please go ahead.

**Pranav Gokhale:**

Good morning sir. My question is first on the infra equipment business could you please let us know what is the reason for this lower margin in infra business does it to do with higher procurement cost or is it to do more with pricing?

**A. K. Sonthalia:**

There is a breakeven level which we have been talking about this business. Until unless we cross about 50 crore mark in a quarter, we don't make profit in this business. You know, the value addition is definitely little less compared to our engine business because lot of components are procured and value addition opportunities for Greaves in this business is a little less. Though we manufacture but still some of the critical components are imported. The operating expenses are not that flexible

with the down turn they do come down but they are not completely variable and that is why there is a loss which you are seeing.

**Pranav Gokhale:**

But this loss in percentage terms has increased to an are we not been able to kind of pass on the benefit or this is just some one off which is come in the current quarter and pricing will probably take care in the next quarters of coming years?

**A. K. Sonthalia:**

No, you have to see the material cost remains at the same level and our contribution margins remain where it is. It is just that fixed expense operating expenses also remain where they are. So that is why if the top-line keeps on coming down losses will keep on going up. Are you trying to compare this with any specific quarter like are you comparing this with the September quarter where turnover was slightly less at Rs 33.85 crore compared to Rs 36.35 crores and of course loss was also little less. I think you are indicating about that, is that the question?

**Pranav Gokhale:**

Right sir so is it to do with?

**A. K. Sonthalia:**

Okay, let me answer that in this current quarter what we have seen which we have been anticipating and which we talked in the last quarter meetings with various investors that concrete which has been doing well in the first six months and before that also and where our margin and our contribution is high, concrete sector was down this quarter. So the mix has really adversely changed. We introduced certain new products that is high capacity batching plant and right now because they have just been introduced, the cost needs to be optimized and pricing is also a bit entry price and therefore, we are not making enough margins which we expect as we go forward we will make. So all these factors have put pressure a little bit more into this quarter

**Pranav Gokhale:**

So it has little less to do with the currency level movements for procurement of those items?

**A. K. Sonthalia:**

No, it is not that it has nothing to do. This time as far as construction business is concerned, currency has really not impacted it maybe a very slight impact. In Agri traded portfolio, it has impacted slightly.

**Pranav Gokhale:**

Okay and so and then you highlighted some 2% in one off could you please let us know what is the kind of one off sir what is the quantum of those actually?

**A. K. Sonthalia:**

I would say I am saying 2% so you can know that they are in the range of around Rs 8.5 to 9 crores and that's the quantum that we are talking about. They are combination of three-four things. We have taken certain corporate initiative on brand building and a major campaign on advertising is underway which is not the normal product advertising keep on happening every time but this is something special we are doing that's the cost. Then we have verified our inventory carefully and this exercise we have been doing very carefully to examine are there some of the inventories which have now become very slow moving or kind of non-moving. We have disposed off some of them so there is a hit for that and then there was a leadership transition and there were also certain costs associated with that. So these are something, we will not be able to give you exact break-up but these three four components that contributed to 9 crores additional hit in this quarter.

**Pranav Gokhale:**

And by one-off you mean you won't necessarily be replicating in the next year or the coming quarter?

**A. K. Sonthalia:**

I am sure Mr. Sunil Pahilajani is going to be there for now next 20 years so there will not be a leadership transition. .

**Pranav Gokhale:**

No I was talking inventory and the brand building more to do with than leadership?

**A. K. Sonthalia:**

Will have something more in the next quarter may be at same level I would say. As far as inventory is concerned, we have done few locations. We will do few more locations. You may see some of these in quarter four also but after that it will be completely clear.

**Pranav Gokhale:**

Okay so if you could sort of highlight the what is the ramp up going on the sub one tonner with respect to Tatas the contract, how are we keeping up and what is the growth been if you could just highlight some numbers of some color on those business particularly?

**A. K. Sonthalia:**

So far Tata vehicles, what we understand, have been received very well both Magic IRIS and ACE Zip. I think current levels are about 5,500 to 6000 engines a month. In the last quarter, about 18000 engines have been supplied to them and we see good prospects from that.

**Pranav Gokhale:**

Okay so on the margin level this is similar to your margins on the other engine business or is it lower?

**A. K. Sonthalia:**

As I said in the beginning and you have to pardon me about repeating this that we will not be able to share margin on a specific segment or customer separately.

**Pranav Gokhale:**

Okay. So but the question is going at as it will be an important pie of your overall auto segment and as the volume increase do you see the margins not being affected because of this?

**A. K. Sonthalia:**

You see as I have been trying to explain that in our Auto business there are two three components - one component is the spares and services okay. The other component is the small regional assemblers who buy from us that is the second component which is again a sweet component for us. Then there is a third sweet component we have started seeing that some of these auto engines has started finding applications in non-auto like tractors and some of the other agri products so that also a sweet component. But after that when we get into the larger players like Piaggio, Mahindra & Mahindra, Tata Motors and few others of course they buy large volumes with us so margins are not as good as these sweet components which I talked about. As we are more aligning with these big guys, the percentage of those components which give us good margin is of course squeezing because those remain almost same while others are becoming large. To that extent some pressure on margin would be there but overall absolute number and ROCE basis we will be fine.

**Moderator:**

Thank you our next question is from the line of Basudeb Banerjee from Quant Capital. Please go ahead..

**Basudeb Banerjee:**

Yeah, thanks for taking my question and as you rightly explained the one offs structure I had a couple of questions. One if you see from restatement of earlier quarter expenditure figures can you explain that sir?

**A. K. Sonthalia:**

Can you point out what you are referring to?

**Basudeb Banerjee:**

For example in the city format raw material cost what was mentioned for Q2 last time now there is some deviation from that though the PAT level it is matching but some expenditure items are not matching as mentioned post last quarter results?

**A. K. Sonthalia:**

Is the difference can you give me the amount, there is some foreign exchange related adjustments I think if the amount is very small if you are talking about the big amount.

**Basudeb Banerjee:**

Two, three crore?

**A. K. Sonthalia:**

You know there were some accounting standard related issues on classification of foreign exchange differences where they should sit and that's the difference which is there. There is no major regrouping.

**Basudeb Banerjee:**

Okay secondly sir if I look at this quarter total three-wheeler volume of Piaggio and Mahindra year on year there is a drop of almost 12, 14% so where do you see this going ahead?

**Sunil Pahilajani:**

Yes, so three-wheeler volume on the whole is not dropping but certainly we see the growth rate is reducing. But at the same time we are now in three-wheeler and four-wheeler and we have a combination of products. So on the whole growth will be fine because four-wheeler segment is growing much faster and three-wheeler segment is growing slower that is what is our observation today.

**Basudeb Banerjee:**

Okay and sir any comment on the agri segment growth as such currently?

**Sunil Pahilajani:**

Agri segment growth is reasonably good. I would say it will be steady as we have seen so far and we are working on R&D and product development as I mentioned clearly so it will be kind of add on to that.

**Basudeb Banerjee:**

It will be great if you can give some ballpark figure?

**Sunil Pahilajani:**

I think this quarter we saw roughly 8 to 9% growth in Agri compared to last year in terms of pump sets and power tiller has also grown. That's the ballpark number as far as we are concerned. The market quarter number would be available only after some time but our business has grown in this range.

**Basudeb Banerjee:**

And sir how the traction with the Tata engine supply going on in last quarter currently on a monthly basis can you quantify?

**A. K. Sonthalia:**

I told it was around 6000 level last quarter and we have supplied around 18000 engines.

**Moderator:**

Thank you. Our next question is from the line of Nainesh Rajani from Tata Mutual Fund. Please go ahead.

**Nainesh Rajani:**

Good morning sir. Just one broad question actually just wanted to understand Bajaj Auto itself is launching a four-wheeler not exactly a car but a four-wheeler vehicle which they tend to replace the autos and you know the three wheelers by over the next two, three, four, five year period what I just wanted to understand that if you take a broad you know a slightly longer picture next year four, five year view how do you think four-wheeler market will grow compared to the three-wheeler market and if that is the case wherein you feel that the four-wheeler market is probably outpaced the three-wheeler market significantly and probably even reduced the three-wheeler market going forward how is it that we are placed compared to take this change into account and how are we geared to be ready for this particular change?

**Sunil Pahilajani:**

Yeah, so in terms of three-wheeler and four-wheeler my feedback is as follows. Number one Greaves Cotton is in three-wheeler and four-wheeler both. Number two we are working on many other future programs to cover kind of full range of vehicles in this segment and be a stronger player. Number three growth rate of three-wheeler which what we foresee will continue at a slower pace so in absolute terms it will continue to grow. The pace is getting slower which is visible. Number four the four-wheeler growth rate is high if you see the base is very low it is very small, it's a new space altogether which has evolved in last few years only. So certainly it is growing much faster so growth is there in both in three-wheeler it is slower and four-wheeler it is higher. Over a period we don't see any of the market will replace each other so it is basically we have to be ready to serve both as trends to go that is our position.

**Nainesh Rajani:**

Just wanted to understand if you see Bajaj and Tatas are probably the only one who have taken a head start as far as four wheelers vehicle is concerned and you haven't seen that kind of traction from even Piaggio and others wherein you know the kind of aggression you would probably see from both these players if that is the case then you already know that Bajaj has its own engine facility as such and you don't and if the case becomes wherein you know the four-wheeler actually replaces the three-wheeler market if that is the case then how is it that we would be placed to or rather how do you think that our customers are placed to see that competition and vis-à-vis we will be able to support our customers in terms of engines for four wheelers something more on that?

**Sunil Pahilajani:**

Yes, yes sure. I mean it is what I mentioned that we have engines platforms for three-wheeler and four-wheeler both. It is a matter of the power range what is required for each customer and accordingly we apply the engine. We are also on now certain future programs which will cover wider range of these tonnage or vehicle power rating so we are going to improve our offering year on year. And we remain there to cover full range at the same time it is not the case where four-wheeler is going to totally altogether replace three-wheeler. We do not foresee this in at least in medium term or even the horizon what we see it is only the growth rate of three-wheeler is slowing down and may remain there and growth of four-wheeler has increased on a lower base and will remain there so as long as we are in both the sectors there is an overall growth for us. The opportunity is there for us.

**A. K. Sonthalia:**

Yeah, and if I may also add something here. Like we are trying also to work hard on the cost competitiveness of three-wheeler which is there right now and with the sub one ton coming, the gap is getting smaller. We are committed that cost competitiveness of three-wheeler stays and that is how the whole effort of Greaves have been how to emissionize these small engines at a very cost effective manner that we have been doing in the past and we will continue to try to do so that the three wheelers remain relevant as far as cost of ownership and cost of running is concerned.

**Nainesh Rajani:**

Okay fair enough. Couple of questions now in the quarterly numbers A in terms of margins you indicated that there was some change in product mix due to which the margin were slightly lower can you elaborate a bit on that sir?

**A. K. Sonthalia:**

Elaborating on that would require business wise explanations. I can certainly elaborate like if you look at the auxiliary power business, it was more than mix the business segment itself is under pressure and there is a sale price compression has happened. In the market in the last quarter, everybody is fighting fiercely for its volume and its market share. But when you come to the agri business, then the mix issue and the rupee devaluation issue are there. Traded portfolio suffered a little bit because of rupee devaluation. The main portfolio, where our kerosene pump sets is high contributing product because we produce that on a scale of economy, was slightly lesser in the mix. The composition of mix with higher proportion to our diesel engine pump set and the tiller got adversely affected. In the construction division, concrete was down in the mix and that affected and in of course auto which is larger as I told you that now we have larger engines which are going to Tata Motors, some larger engines are going not in a big number but they are going to Piaggio for truck plus that's another four-wheeler so there are three four wheelers where engines are going and some material cost pressure was there. So all businesses had different dynamics in terms of mix and a little bit sales pricing. Sales pricing pressure was very visible in construction and auxiliary power but other businesses were able to pass on to the market. .

**Nainesh Rajani:**

Okay sir next question would again be related to your new brown filed facility that has just started its operation do you foresee any extra cost coming on account of that particular facility over the next couple of quarters which could keep your margins under pressure or that fixed cost will not be significantly because it's just a brown field adding a extra line?

**A K Sonthalia:**

Yeah, I would say once it ramps up it's been able to take care. Just want to inform you now Mr. Pahilajani has to go so he is leaving now. And I will of course be there for some more time to take your questions. Okay, so you know we were talking about Shendra has just started functioning and ramping up. Still, I would say, not fully settled so initial period but all the people to run those machines have been hired and therefore, the cost has kicked into this quarter which is another about 2 crores. That would get absorbed once the facility is fully functional and it starts contributing to the required level of production. So I see this is a temporary phenomenon for maybe next quarter and going up to the next to next quarter. After that it should be fully absorbing that cost and contributing to the company.

**Moderator:**

Thank you our next question is from the line of Ram Hegde from Primus Investment Advisers. Please go ahead.

**Ram Hegde:**

Good morning sir. Just wanted to get a sense on the automotive engine side is it possible to share the sort of volume growth that we have seen in this quarter YOY and on the nine months basis?

**A K Sonthalia:**

Okay I can perhaps give you some idea about that as far as the quarter on quarter is concerned we have seen I am talking about December 10 vis-à-vis December 11 about 11% growth we have seen and if you look at nine months figures we have looked at about 8% growth.

**Ram Hegde:**

And sir want to just understand you said that the three-wheeler was growing slower, is there way some sort of cannibalization which is going on from basically that four-wheeler for you is growing faster so?

**A K Sonthalia:**

You see if now one has to define and we also look at now market as up to one tonne category irrespective of three-wheeler and four-wheeler and that is the size of the market and some amount of cannibalization cannot be ruled out. But it depends on

how the growth momentum is there? If the growth momentum is very fast in the economy then you will see both will grow in absolute number but one thing is becoming very clear to us that three wheelers growth rate is going to be now not those numbers which we saw sometime back 20% and upwards. That is very difficult to achieve and that we are seeing in the cargo side of four wheelers where still the numbers are today healthy growth numbers. I think trend is going to continue but we believe three wheelers have still a lot of market segment and through market development program to cover as far as India is concerned. They have still some of the territories inside apart from metro, Tier-2 they have enough to go along so we don't see them to de-growing.

**Ram Hegde:**

And if you were to look at three-wheeler passenger versus three-wheeler cargo you said three-wheeler passenger is growing or cargo is growing right is that what I?

**A K Sonthalia:**

I said four-wheeler cargo is growing very rapidly. I talked about three-wheeler overall market and in fact three-wheeler total as far as diesel engine market was pretty flat compared to the last quarter sequentially if you look at September quarter vis-à-vis December quarter. Three-wheeler diesel has certainly grown from about 10% maybe more than 10% if you compare YOY basis but I don't have right now details available with me between cargo of three-wheeler and passenger three-wheeler..

**Ram Hegde:**

Okay. The next question was really in terms of the pricing, have we at all effected any or got any price increases this quarter or in the first nine months basis versus last year?

**A K Sonthalia:**

The price increase with various customers happen at different point of time. Some of the increase did come in, in this quarter but we expect some more to happen during next quarter. I would imagine if auto continues where it is even if you know the same amount of engine they will be slightly more profitable because we are in stage of negotiation with one or two customers and we hope that we will get some increase so that should come in quarter four.

**Ram Hegde:**

Okay, the next question in terms of your new plant what was the utilization now?

**A K Sonthalia:**

. I think they reached about 200 engines kind of per day at this point of time.. About 6000 to 7000 engines are happening. I am not sure about the exact number.

**Ram Hegde:**

And what is the capacity on per day basis roughly?

**A K Sonthalia:**

They have a capacity of about 85,000 per annum so that makes it around 7000, to 8000 engines they can make every month.

**Ram Hegde:**

Okay and you said basically there is obviously some costs which you have incurred which are more one-off and as utilization improves you will start seeing the benefit so at a plant level are you profitable today at this volume?

**A K Sonthalia:**

Yeah, we are profitable although, we do more focus on business level profitability and there is no separate P&L so far has been drawn for Shendra. The plant is doing very well. its very efficiently done up. These are pretty flexible plants as far as single cylinder various types of engines are concerned and various kinds of engines have different economy of a scale and margin. So if management decides something to do something in plant that should really not reflect on the plant's profitability.

So we are more focused on customers and business as a whole rather than focusing on plant profitability at corporate level. At least that is how I don't have great visibility in that.

**Ram Hegde:**

And sir in terms of Ranipet when does it come on stream like?

**A K Sonthalia:**

Ranipet, pls come again....

**Ram Hegde:**

Yeah, when do you complete the expansion?

**A K Sonthalia:**

What happens in this kind of Brownfield expansion as you keep on putting machines for machining capacity, you start getting some of the benefit. Although the idea for Ranipet is completely 500 engines per day addition, almost 150 to 200 engines have already started coming in. Because part of the equipments are already in place and everything is happening. So 500 engines would start coming in say in the first or second quarter of the next financial year. But we have started seeing 100 or 150 engines increased production from Ranipet.

**Ram Hegde:**

And sir just on you mentioned clearly that there was a one-off brand building exercises which you all did which was visible in the print and all, is it possible to quantify this?

**A K Sonthalia:**

Let me tell you, it was around 2.5 crores.

**Moderator:**

Thank you our next question is from the line of Aparna Shankar from SBI Mutual Fund. Please go ahead.

**Aparna Shankar:**

Sir when you were talking about three wheelers and four wheelers have we seen any new plant or existing clients taking our assistance in four wheelers?

**A K Sonthalia:**

Right now there are only two clients one is Tata Motors and the Piaggio where we are supplying. Other things are as we keep on talking and approaching new customers but there is nothing which is worth sharing at this point of time.

**Aparna Shankar:**

Okay but some of other clients also are planning to move from three wheelers to our existing clients are have aspirations to move to four wheelers and I mean as of now you don't see any of them coming back to you for enquiry isn't it?

**A K Sonthalia:**

There is only like Tata Motors sub-one tonne platform of Ace Zip and Magic Iris is with us and Piaggio may have a plan which is for a little bit larger size and they are working on that as far as we know from the market. We are not supplying engines for that. Piaggio the entire three-wheeler and one of sub-1 tonne four-wheeler is with us right now. They have one more with our competition. I cannot comment whether we will be able to supply to some other vehicle. So right now one sub-1 tonne four-wheeler and three-wheelers, we are with them. They have aspiration to which I also understand from the market to come on a little bit larger size of four wheeler. I think we are not discussing very seriously on engine supply for that vehicle.

**Aparna Shankar:**

Okay and our current three-wheeler customers are there any expansion plans from their side which you would be like to share with us for next year which will give us some volume growth something like that?

**A K Sonthalia:**

One is the export side of it. Of course if our clients are able to do a good job that will provide us a boost. We ourselves have now undertaken, as talked in the earlier, market development on us very seriously and it includes our auto division engines also. And auto division engines for auto application as well as non-auto application. So market development exercise is being given huge thrust and normally results take time to come. Let me tell you particularly in auto division even if we start today something may come only in six months or a year or sometime even longer but that exercise is being done. An organization around that activity is being built very seriously. So we are going to put resources around that activity which were earlier being done but now special focus has been given particularly when the markets are slowing down, your existing clients are slowing down and you need to look for the newer market segments, newer geographies which we are doing and hopefully we will be successful with some of the breakthrough.

**Aparna Shankar:**

Precisely that is what I am trying to understand. One of your I mean good client who has been with you for many, many more years has been planning an expansion and which is not far and it could be may be second quarter of next year or something like that and it is really surprising are we getting any enquiry for that kind of volume they are going to be almost doubling the capacity?

**A K Sonthalia:**

Why don't you name that. I hesitate in guessing that.

**Aparna Shankar:**

It is Atul Auto?

**A K Sonthalia:**

Atul Auto I think we would be in touch. I do not know specifics but with some of the clients have talked about their expansion plans and maybe some of the not existing clients are also in touch. We have got good traction in the small tractors from our auto engines so we are exploring possibility of supplying those engines for that application also. But again as I say results of these conversations or these discussions you will never know till something is signed. So that is why we don't want to discuss them or create any kind of optimism around that saying yes something is going to happen.

**Aparna Shankar:**

Okay another I mean again and Nainesh would have talked about this about Bajaj Autos new launch of RE60 and they want to replace all the three wheelers which Bajaj is a big player, big contributor to this industry. So I mean what concerns you see I mean if that happens what would be the probability that happening or something like that?

**A K Sonthalia:**

Of course we are looking at those developments very seriously and that is why when we talk about that we want to explore and take market developments so seriously is arising out of all these things that some of your existing market may become more competitive. Right now in diesel three-wheeler, we don't face much competition so to say. We have more than 80% market share so after recognizing all these developments only I think Greaves is taking necessary steps to get more solidly positioned in four-wheeler segment and explore a little bit non-auto application and go outside India also for both types of application and tie up with overseas OEMs if possible supplying engines to them. So all these activities are on. How RE60 would change the market dynamics in India is anyone's guess as yours or mine....

**Aparna Shankar:**

No, I mean looking at his pedigree I think it should not be less on guess. I mean it's for sure that they would be there and they have a larger buyer of three wheelers. The scenario may emerge that our market itself is shrinking and maybe that four wheelers unless and until you have some real breakthroughs that market will not be able to compensate the kind of de-growth we might foresee in three wheelers. I mean I am just trying to understand are we alive to that competition or we just complacent about 80% market share?

**A K Sonthalia:**

No we are not at all complacent. That is what I have been trying to explain to you. We are not at all complacent and we are looking at whole process of market development initiative which of course four-wheeler is on the top the chart to get some more success there. But even outside India we are looking at opportunities and as far as Bajaj is concerned yes Bajaj is big and Bajaj continues to be big but as far as domestic market is concerned they have got great success in export market.. Otherwise you know so far if you just look at three-wheeler market in India I think diesel is much more than the petrol or gas or the CNG version which Bajaj is offering. That way diesel market share is higher but we are not at all complacent on any of the thing. And as talked in the beginning we have programs in place on which we are working that how do we also progress in the value chain of the engine portfolio.

**Moderator:**

Thank you. The next question is from the line of Madan Gopal from Sundaram Mutual Fund. Please go ahead.

**Madan Gopal:**

Good morning sir. Sir my question is on the powergen segment can you briefly take us through how are these segments behaved in Q3 and what is the outlook you have for Q4. Now we have been hearing that there is sharp slowdown in the low KVA gensets so what's your take on that?

**A. K. Sonthalia:**

Yeah, I think that we have been also witnessing the same thing. The auxiliary power which is a genset market for us has been witnessing slowdown not only in terms of volume it has also seen pressure on pricing because all the competition is doing that and you have to follow that so pricing is under pressure. Volumes have come down but I would imagine all these things are linked to how the infrastructure and reality they are the major sector where these gensets have a role to play have been impacted by high interest rates. So if we believe that interest rates are now peaking and gradually they would start softening or getting corrected then as these sectors would do well and gensets sector should also do well. But for quarter four I am not very optimistic. It may remain at same level but as far as Greaves is concerned, because we are not very big player in this segment where economy hurts us too badly because from a small base you always have opportunity if you are doing things right to grow somewhat and that is what we are positioning ourselves. We are not a 30% or those kind of big players who directly get impacted by GDP growth rates.. We still have opportunity and our distribution and service network was weak which we have taken into account and we are rebuilding in some of the regions. Some very large distributor have already come on board and we have started seeing result in the last quarter and some more would come so I hope by quarter 4, our distribution building exercise would be complete and for our business I see it as positive. But the overall business for genset segment may still be under pressure for sometime, one or two quarter but as far as Greaves is concerned we think being a small player not a big player, we have opportunity to grow.

**Madan Gopal:**

Okay sir when you say pricing is under pressure and competition is increasing, is that price being cut by someone like Cummins or Kirloskar or?

**A K Sonthalia:**

As far as our information goes, It has been cut by Competition. Kirloskar or Cummins, I cannot tell you for sure.

**Madan Gopal:**

Okay and sir what kind of definitely Cummins engines might be getting that premium, so where do we stand in terms of pricing compared to Cummins and Kirloskar?

**A K Sonthalia:**

I think we are slightly below Cummins. The market is competitive and pricing gets decided based on various factors.

**Madan Gopal:**

And sir lastly there is a change in GPCP norms which is coming up on this segment say in FY14 and how prepared are we to meet those norms?

**A K Sonthalia:**

You see we are working on. There are few ranges of engines where the work is in very advanced stage and we are very confident. There are one or two ranges where we need to work hard and which we are working on with full steam. We are hopeful that we will be able to do something.

**Madan Gopal:**

But sir generally year before the change in norms other players introduced those engines to the market and marketed. So one year we have left so you are confident that we will be able to do it?

**A K Sonthalia:**

You see our new series of engine G series which is now getting extended on both sides. Earlier say if it was doing 80-125 kind of rating now it will be going up to 200 and on the lower side also it is going below to 40. So that range is kind of we will be fully compliant for 100% sure. The other series we are still working and like any R&D project one can always be not 100% sure about the outcome. But we are working with world renowned consultants and with our own R&D team. We hope to work something in time.

**Moderator:**

Thank you. Our next question is from the line of Vinay Nair from Rare Enterprises. Please go ahead.

**Vinay Nair:**

Sir my question is regarding the volumes for Tata Ace and you said that in the last quarter you sold about 18,000 which means about 200 per day so how do you see the volumes ramping up in the future. The company it seems is planning for a throughput of almost like a 1000 units per day so?

**A K Sonthalia:**

We are with them in their planning process and as you would know that once the vehicle is using a particular engine, it always runs on that particular engine. Both are working and running together. And we know their plans and they know our plans and accordingly plans are made. The Stage-1 when we had started was 9000 engine a month and we are fully geared up. We are expanding Ranipet capacity as you know which will be ready by April and if need be will be fully supporting Tata Motors whatever numbers they want and we are in constant dialogue on their plans every month. Every fortnight an interaction happens. So if they will come out with 1000 vehicles, we will come out with 1000 engines but you know between planning and ground reality sometimes there is a little bit difference. There is a little bit lag in achieving those numbers but we will be fully ready whatever Tata Motors would like us to do.

**Vinay Nair:**

Sir my question is regarding how this ramp up is likely to happen? Currently based on whatever visibility you have how do you see this ramping up in the next two three quarters?

**A K Sonthalia:**

I would imagine next quarter we should go to 300 engines per day February, March may happen that way. And it will be gradual it is not going to happen 300, 400 to 1000. It will take at least to my mind four quarters to reach those levels and provided market is supporting that kind of growth because how 2012-13 could play out is still completely open and no one knows how things are going to happen.

**Vinay Nair:**

Sir with this kind of a volume ramp up, how do you see the operating leverage taking in your engine business?

**A K Sonthalia:**

That always gives us a benefit of a percentage or two percentage not more than that and there is always a cycle, like we have been getting those leverages in the last two years and since the seam has started cracking in terms of capacity and now we have again invested two major investments in auto. So again it will take two, three years when again if the market supports and you are fully capacity utilized or more than 100% and then full leverage kicks in and then again you go into the expansion cycle. So I think that 2% float happens in margin when you are at fully utilized capacity 1 to 2% you get and then once you again create capacity and for sometimes you carry that. So I think that cycle would continue I don't see more than that in that. Can we now have a last question Anish, I think if that's okay?

**Moderator:**

Thank you so much. So we have the last and final question from the line of Sameer Raj from Reliance Mutual Fund. Please go ahead.

**Sameer Raj:**

Good afternoon sir. Sir wanted to understand from your whatever explanation which you have given whatever factors which caused margin compression in the last quarter more or less remain in Q4 also?

**A K Sonthalia:**

For Greaves I believe our auxiliary power should do slightly better than what it has done in quarter three and same we are trying our best for construction. We don't want to see these kind of turnover and loss getting repeated. So if both these sectors do slightly well what they have done in quarter three so overall Greaves may also do but as far as Q4 is concerned I see kind of flat to slightly upward not down from here. It is kind of flat to slight positive.

**Sameer Raj:**

Absolute number you are talking?

**A K Sonthalia:**

Yeah.

**Sameer Raj:**

Sir in fact even if the price hike which you talked about in auto if that comes to that also should?

**A K Sonthalia:**

That is I am hoping on that would be the positive otherwise we think the businesses would run as they have been running.

**Pritesh:**

Mr. Sonthalia this is Pritesh here, just one question I had if you could tell us the quarter 3 and the nine month growth for the auxiliary power, industrials, and agri?

**A K Sonthalia:**

Industrial has been growing almost as I said if you look at year-on-year they have been growing 100% but sequentially they would be growing 25, 30%. The second you wanted auxiliary power, auxiliary power I would say year-on-year they are flat (-2% to -3%) I would say but quarter-on-quarter sequentially they are down by almost 8 to 10%.

**Pritesh:**

And for the nine month what would be the auxiliary power growth just like auto was 8%?

**A K Sonthalia:**

Nine months for auxiliary power nine months is at about 5%.

**Pritesh:**

5 and industrials for that number would be?

**A K Sonthalia:**

Industrials have been growing very rapidly almost 100%. But the base is very small.

**Pritesh:**

Which means that can one take the auxiliary power growth 5% for you, has there been any market share changes in the industry?

**A K Sonthalia:**

Market share will be a very slow process with 5% growth definitely I think the change will be still in decimal.

**Pritesh:**

Okay which means that it can be a representative of the industry growth rate itself?

**A K Sonthalia:**

I don't know people say the industry has not grown but we have slightly Positive.

**Pritesh:**

I think that was the last question sir from our side. On behalf of Emkay I would take this opportunity to thank you, Mr. Sonthalia, and Mr. Pahilajani for coming on the call and giving us an update on the quarter 3 performance. Emkay is grateful for giving the opportunity to us to host the call. Over to you Mr. Sonthalia if you have any closing remarks sir.

**A K Sonthalia:**

Okay so I also want to thank you all for attending this earning conference call and we definitely very much appreciate your interest in our company. I would just like to summarize that you would have observed that the company continues to grow as far as the top-line is concerned. Of course margins are getting squeezed due to various reasons which are product mix, external environment of high interest rate, and of course there were one-off items as I explained to you in this quarter. Only the positive things which I see right now is from the CRR cut, etc., it appears interest rates has peaked and they should not go up rather they should go down from here and it will be good for businesses and investment. But having said that I we in Greaves Cotton do believe that we are present in right sectors and we are strongly positioned to take advantage of any upturn which happens in the economic environment. There are certain key initiatives which company had embarked upon which are around market development and we are looking at driving up efficiency and cost reduction in our structure in a big way. Benefits of these initiatives will start showing only after two, three quarters. As far as cash generation is concerned that remains goods and it supports all organic growth requirement and we continue to be near zero debt company. So I believe our ability to invest



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in the future for manufacturing capacities, R&D, and market network is intact and we will continue to invest in these areas. So all in all we are optimistic about things the way they will unfold but everybody is cautiously looking at how does it happen in 2012-13. I would like to again thank you and have a very good day ahead.

**Moderator:**

Thank you sir. On behalf of Emkay Global Financial Services that concludes this conference. Thank you for joining us. You may now disconnect your lines, thank you.

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**Note:**

1. This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.